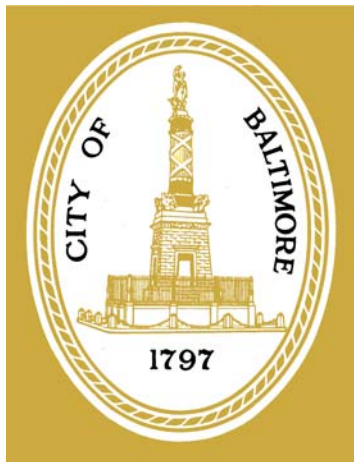


INDEPENDENT AUDITOR'S REPORT

THE WAR MEMORIAL COMMISSION

FOR THE FISCAL YEAR ENDED

JUNE 30, 2002



**City of Baltimore
Department of Audits**

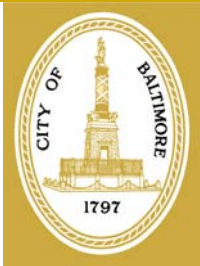
**AUDIT REPORT
WAR MEMORIAL COMMISSION
FISCAL YEAR ENDED JUNE 30, 2002**

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT.....	1
EXHIBIT A - Computation of State's Fifty Percent Share of Net Expenditures for the Fiscal Year Ended June 30, 2002.....	3
SCHEDULE 1 - Net Expenditures Chargeable to the War Memorial Commission Appropriation Accounts for the Fiscal Years Ended June 30, 2002 and 2001.....	4
NOTES TO FINANCIAL STATEMENTS.....	5
AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	6
SCHEDULE OF FINDINGS OF NONCOMPLIANCE	8
SCHEDULE OF INTERNAL CONTROL FINDINGS	9
ATTACHMENT I – Status of Prior Year’s Findings and Recommendations.....	11

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF AUDITS

YOVONDA D. BROOKS, CPA
City Auditor

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INDEPENDENT AUDITOR'S REPORT

April 16, 2003

Honorable Joan M. Pratt, Comptroller
and Other Members of the
Board of Estimates
City of Baltimore

We have audited Exhibit A, Computation of State's Fifty Percent Share of Net Expenditures for the Fiscal Year Ended June 30, 2002, and Schedule 1, Net Expenditures Chargeable to the War Memorial Commission Appropriation Accounts for the Fiscal Years Ended June 30, 2002 and June 30, 2001. These financial statements are the responsibility of the War Memorial Commission. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, net costs of operations for the fiscal years ended June 30, 2002 and June 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2003, on our consideration of the War Memorial Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the War Memorial Commission, State of Maryland, and the City of Baltimore management. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

Yovonda D. Brooks, CPA
City Auditor

EXHIBIT A

WAR MEMORIAL COMMISSION
COMPUTATION OF STATE'S FIFTY PERCENT SHARE OF NET
EXPENDITURES FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Net Expenditures Charged to the War Memorial Commission Appropriation Accounts for Fiscal Year 2002 (Schedule 1).....	\$ 280,141
Fifty Percent Thereof Billable to the State.....	\$ 140,071
Balance Due from State from Prior Fiscal Years.....	20,348
Total Due from State.....	<u>160,419</u>
Amount Received from State During Fiscal Year 2002.....	<u>140,624</u>
Net Balance Due from State.....	<u>\$ 19,795</u>

See notes to financial statements.

SCHEDULE 1

WAR MEMORIAL COMMISSION
NET EXPENDITURES CHARGEABLE TO THE WAR MEMORIAL COMMISSION
APPROPRIATION ACCOUNTS FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

EXPENDITURES:	<u>2002</u>	<u>2001</u>
Salaries.....	\$ 149,561	\$ 152,630
Other Personnel Costs.....	61,516	52,786
Contractual Services:		
Gas, Electric, Steam.....	\$ 45,374	\$ 68,500
Maintenance and Repairs of Real Property.....	2,947	2,174
Telephone.....	4,665	3,846
All Others.....	<u>3,763</u>	<u>4,999</u>
Total Contractual Services.....	56,749	79,519
Materials and Supplies.....	7,053	6,529
Equipment Replacement.....	<u>5,262</u>	<u> </u>
Total Expenditures.....	<u><u>\$ 280,141</u></u>	<u><u>\$ 291,464</u></u>

See notes to financial statements.

WAR MEMORIAL COMMISSION NOTES TO FINANCIAL STATEMENTS

Background

The War Memorial Commission (Commission) has the authority to spend, at its discretion, such funds as may be appropriated by the General Assembly of Maryland and the Mayor and City Council of Baltimore for the maintenance and administration of the War Memorial Building. This authority is provided by the State Government Article, Sections 9-931 through 9-937 of the *Annotated Code of Maryland*, which establishes the Commission as a unit in the Department of Veterans Affairs of the State of Maryland. The City appropriates funds for operating expenses of the Commission, and all revenues received by the Commission are deposited with the City. The Department of Veterans Affairs of the State of Maryland is billed by the City for one-half of the amount charged to the War Memorial Commission appropriation accounts.

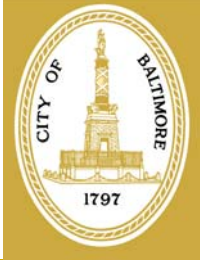
Significant Accounting Policies

The War Memorial Commission reports to the State of Maryland expenditures as they are recorded (net of miscellaneous revenue) in the governmental funds of the City of Baltimore, except that encumbrances charged to the War Memorial Commission appropriation accounts are not included. This effectively puts the reporting on the modified accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America.

AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
FOR
THE WAR MEMORIAL COMMISSION
FISCAL YEAR ENDED
JUNE 30, 2002

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF AUDITS

YOVONDA D. BROOKS, CPA
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**AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

April 16, 2003

Honorable Joan M. Pratt, Comptroller
And Other Members of the
Board of Estimates
City of Baltimore

We have audited Exhibit A, Computation of State's Fifty Percent Share of Net Expenditures for the Fiscal Year Ended June 30, 2002, and Schedule 1, Net Expenditures Chargeable to the War Memorial Commission Appropriation Accounts for the Fiscal Years Ended June 30, 2002 and June 30, 2001 and have issued our report thereon dated April 16, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the War Memorial Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of material noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance which is described in the accompanying schedule of findings as CONDITION I.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the War Memorial Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant

deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the War Memorial Commission's ability to process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of internal control findings as CONDITION II.

A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

We noted other matters involving the internal control over financial reporting and its operation that are reported as CONDITIONS III and IV in the accompanying schedule of internal control findings. We also followed up on certain matters which were discussed in our prior audit report. We are reporting on these matters in Attachment I of this report.

This report is intended solely for the information and use of the War Memorial Commission, State of Maryland, and the City of Baltimore management. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

Yovonda D. Brooks, CPA
City Auditor

SCHEDULE OF FINDINGS OF NONCOMPLIANCE

IMMATERIAL INSTANCE OF NONCOMPLIANCE

CONDITION I – WAR MEMORIAL COMMISSION EXPENDITURES INCLUDED THE DUPLICATE REIMBURSEMENT OF A \$63 INVOICE

According to the Annotated Code of Maryland, the War Memorial Commission (Commission) may use, for the maintenance and administration of the War Memorial Building, any funds that the General Assembly or the Mayor and City Council of Baltimore appropriate for those purposes. However, the Commission did not properly account for the following expenditure item.

The Commission submitted duplicate expenditure reimbursement requests to the City for a vendor invoice totaling \$63. The Commission received reimbursement for both expenditure requests.

We recommend that the Commission prepare accurate reimbursement requests to the City and maintain appropriate supporting documentation. Additionally, we recommend that the Commission return the \$63 in duplicate payments to the City.

SCHEDULE OF INTERNAL CONTROL FINDINGS

REPORTABLE CONDITIONS INVOLVING INTERNAL CONTROLS

CONDITION II – THE WAR MEMORIAL COMMISSION CHECKING ACCOUNT CHECKS, DIRECT PAYMENT ORDERS AND PAYROLL ATTENDANCE REPORTS WERE SIGNED BY AN UNAUTHORIZED STAFF MEMBER

We noted that the authorizing signatures of the Executive Director and Commission Chairman on the War Memorial Commission bank account checks, Direct Payment Orders and Payroll Attendance Reports were signed by the Office Assistant. The Office Assistant is not listed as an authorized signatory for the bank account nor does she have authorization to sign any documents as a Department Head or Supervisor.

By permitting the Office Assistant to sign on their behalf, the authorized signatories are circumventing the established internal controls over cash and payroll. This procedure puts the Commission at great risk for misappropriation of funds or other irregularities. Management should not delegate its authorization function to staff.

We recommend that War Memorial Commission personnel adhere to established policies and procedures concerning office operations. The Executive Director should personally review and sign all documents that require his approval and authorization. Additionally, the Commission Chairman should personally sign the bank account checks. The authorization permitting the Office Assistant to sign the Director's or Chairman's name on key Commission documents should be terminated immediately.

OTHER MATTERS INVOLVING INTERNAL CONTROLS

CONDITION III – THE WAR MEMORIAL COMMISSION DID NOT PERFORM MONTHLY BANK RECONCILIATIONS

Management is responsible for establishing internal control policies and procedures that are sufficient to ensure the accuracy of its financial statements. We believe that monthly bank reconciliations are crucial to ensuring that recorded financial information is accurate and reliable. Additionally, bank reconciliations are an important tool for safeguarding cash. The Commission did not perform monthly bank reconciliations. This is a recurring condition that was reported in the prior year's audit.

We recommend that bank reconciliations be performed on a monthly basis. The reconciliation should be reviewed and approved by the Director. Bank reconciliations should be in written form and maintained with other Commission accounting records.

CONDITION IV – THE WAR MEMORIAL COMMISSION DID NOT HAVE ADEQUATE DOCUMENTATION TO SUPPORT CERTAIN PAYROLL ATTENDANCE REPORTS (PAR)

City policies and procedures require sufficient documentation to support employee Payroll Attendance Reports. We found that for six of twelve employee payroll attendance records reviewed, attendance on the PAR was not supported by Commission documentation. The inadequate support for these six included no daily sign-in/out by employees, no leave request forms, and conflicting attendance information between the PAR and Commission documentation.

We recommend that the War Memorial Commission adhere to established City policies and procedures concerning the recording and maintenance of payroll information, including accurate record keeping, use of leave request forms and the completion of daily sign-in/out sheets. The adherence to adequate internal controls over payroll is vital to protect against possible misappropriation of funds.

ATTACHMENT I

WAR MEMORIAL COMMISSION

FISCAL YEAR ENDED JUNE 30, 2002

STATUS OF PRIOR YEAR'S

FINDINGS AND RECOMMENDATIONS

(Findings not considered to have a material effect
on the financial statements)

ATTACHMENT I

**WAR MEMORIAL COMMISSION
FISCAL YEAR ENDED JUNE 30, 2002
STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS**

**CONDITION I – WAR MEMORIAL COMMISSION EXPENDITURES INCLUDED
DUPLICATE AND EXCESS PAYMENTS OF \$146, UNSUPPORTED
PAYMENTS OF \$204 AND UNREIMBURSED COSTS OF \$70**

During the fiscal year 2001 audit, we noted that the War Memorial Commission incurred expenditures totaling \$420 that were not in compliance with the Annotated Code of Maryland.

Duplicate & excess reimbursements	\$ 146
Unsupported payments	204
Unreimbursed costs	<u>70</u>
	<u>\$420</u>

Current Audit Status

The duplicate payment of \$146 to the Commission by the City during fiscal year 2001 was repaid during fiscal year 2002. We noted a similar finding during fiscal year 2002 and have included it in CONDITION I of this report.

The Commission's account number was erroneously charged for building repairs of another City agency instead of being charged for its own building repair costs. The amount of the repair costs which exceeded the War Memorial Commission's repair costs was \$204. During fiscal year 2002, a journal entry was processed to correct this error.

The unreimbursed costs of \$70 were submitted to the City for reimbursement during fiscal year 2002. Payment was subsequently received by the War Memorial Commission.

All audit recommendations made for this condition were implemented. This finding has been resolved.

**WAR MEMORIAL COMMISSION
FISCAL YEAR ENDED JUNE 30, 2002
STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS**

CONDITION II – THE WAR MEMORIAL COMMISSION DID NOT PERFORM MONTHLY
BANK RECONCILIATIONS

During the fiscal year 2001 audit, we noted that the War Memorial Commission did not perform monthly bank reconciliations. We believe that monthly bank reconciliations are an integral tool for ensuring the accuracy and reliability of financial information as well as for safeguarding cash.

Current Audit Status

This is a recurring finding noted in the current audit as CONDITION II. As such, this finding has not been resolved.